1960 ANNUAL REPORT

RAPID-AMERICAN CORPORATION

RAPID-AMERICAN CORPORATION

ANNUAL REPORT

For the Year Ended January 31, 1961

DIRECTORS

*JAMES HELLER
LEONARD C. LANE
*MESHULAM RIKLIS
HERBERT D. SILVER
*LORENCE A. SILVERBERG
MELVIN UNTERMAN
*HARRY H. WACHTEL
*JACOB S. WEINSTEIN

**Member of Executive Committee*

OFFICERS

MESHULAM RIKLIS	*President & Chairman of the Board*
JACOB S. WEINSTEIN	*Chairman of Executive Committee*
HARRY H. WACHTEL	*Executive Vice President*
ISIDORE A. BECKER	*Vice President & Treasurer*
CHARLES C. REHFELDT	*Vice President & President, L & C Mayers Division*
MARK F. BECK	*President, Rapid Electrotype Division*
SAM BUCHMAN	*President, Alan Jay-Clarolyte Division*
SUMNER M. LEVINE	*President, American Art Works Division*
JOSEPH B. RUSSELL	*Secretary*

COMMITTEE CHAIRMEN

JACOB S. WEINSTEIN	*Chairman of Executive Committee*
GEORGE A. GREENBERG	*Chairman of Operating Committee*
ALFRED T. MANACHER	*Chairman of Acquisition Committee*

GENERAL COUNSEL WACHTEL & MICHAELSON, *New York, New York*

AUDITORS HASKINS & SELLS, *New York, New York*

TRANSFER AGENT CHEMICAL BANK NEW YORK TRUST COMPANY, *New York, New York*

REGISTRAR IRVING TRUST COMPANY, *New York, New York*

LISTING AMERICAN STOCK EXCHANGE

EXECUTIVE OFFICES 711 FIFTH AVENUE, NEW YORK 22, NEW YORK

DIVISIONS

RAPID ELECTROTYPE DIVISION

ALFRED T. MANACHER	*Chairman*
MARK F. BECK	*President*
WILLIAM L. WESTERMAN	*Executive Vice President*
EDWARD M. BAKER, JR.	*Vice President & General Manager, Philadelphia Plant*
MARK F. BECK, JR.	*Vice President & General Manager, New York Plant*
WILLIAM F. HOWARD	*Vice President & General Manager, San Francisco Plant*
HARRY C. ROWE	*Vice President & General Manager, Detroit Plant*
JAMES P. TERRY	*Vice President & General Manager, Cincinnati Plant*

Plant Locations

Cincinnati, Ohio • Detroit, Michigan • New York, New York
Philadelphia, Pennsylvania • San Francisco, California

Division Office

711 Fifth Avenue, New York 22, New York

L & C MAYERS/SPORS DIVISION

BERNARD KOBROVSKY	*Chairman*
CHARLES C. REHFELDT	*President*
ROBERT L. AARONSON	*Vice President*
PAUL M. COHEN	*Vice President*
ALAN LONGSTAFF	*Vice President*
GORDON BIEHL	*Merchandise Manager*
PHILLIP D. BUCKMAN	*Plant Manager*
JOHN DALY	*Comptroller*
EDWARD G. GOFFRON	*Division Merchandise Manager*
CLAYTON NIELSEN	*Division Merchandise Manager*
ELWOOD A. SMITH	*Division Merchandise Manager*
WILLIAM R. BOLTON	*Division Merchandise Manager*
IRVING LEWIS	*Premium & Sales Incentive Division Manager*

Plant Locations

Chicago, Illinois • LeCenter, Minnesota • New York, New York
Philadelphia, Pennsylvania

Division Office

218 South Wabash Avenue, Chicago, Illinois

AMERICAN ART WORKS DIVISION

LEONARD C. LANE	*Chairman*
SUMNER M. LEVINE	*President*
TAYLOR B. TOOMEY	*Plant General Manager*
MARTIN P. MURPHY	*Vice President in Charge of Sales*
DONALD H. MOLESWORTH	*Vice President*
ROBERT BISHOP	*Comptroller*

Plant Locations
Coshocton, Ohio • Cincinnati, Ohio

Division Office
711 Fifth Avenue, New York 22, New York

ALAN JAY-CLAROLYTE DIVISION

LEONARD C. LANE	*Chairman*
SAM BUCHMAN	*President*
MURRAY BACKELMAN	*Vice President in Charge of Production*
J. DANIEL SIMON	*Vice President in Charge of Sales*
HAROLD FINK	*Comptroller*
HERBERT SILBERMAN	*Secretary*
SID SHACHT	*Production Manager*
HAROLD SHACHT	*Manager, Packaging Division*

Plant Location
Bronx, New York

Division Office
2927 White Plains Road, Bronx 67, New York

CELLU-CRAFT PRODUCTS DIVISION

SAMUEL J. LEVY	*President*
MILTON I. BENNETT	*Executive Vice President*
JOSEPH L. LEVY	*Vice President*
SIDNEY J. REED	*Secretary & Treasurer*
HAROLD M. BELMUTH	*Manager, Laminex Division*
LEWIS F. REED	*Manager, Research & Development Division*
JOSEPH W. SCOTT	*General Manager, Transpak Division*
HOWARD N. SLADE	*Manager, Operations Division*

Plant Locations
New Hyde Park, New York • Hialeah, Florida

Division Office
1401 Fourth Avenue, New Hyde Park, New York

EDWIN B. DE MESQUITA	*Director of Public Relations*
HAIM BERNSTEIN	*Director of Product Coordination*

TO OUR SHAREHOLDERS:

The important events of the year can be reviewed under two headings: expansion and consolidation within Rapid-American and the significant entry, through McCrory Corporation, into the retail merchandising field. Each of these areas of development is extensive and holds great future promise.

After a most profitable sale of Butler Brothers' assets in February 1960, B.T.L. Corporation (the new name given to the corporation) used part of the substantial cash sale proceeds to acquire a controlling interest in the McCrory-McLellan Stores. On July 16, 1960, the merger of B.T.L. Corporation, McCrory-McLellan Stores Corporation and United Stores Corporation brought McCrory Corporation into being. The new entity, with emphasis on first-rate personnel and advanced management techniques, is moving toward the fullest realization of profit potentialities. We are attaching to this report the entire Annual Report of the McCrory Corporation in order to acquaint you with complete details.

Within Rapid-American, developments have been significant. The most important include the consolidation of our mail order division; the organization of a new plastic division; the successful sale of the paper division; the continued improvement in personnel, equipment and techniques of all operating divisions, and the substantial increase in shareholder equity.

Another development of major significance was the completion on April 6, 1961, of the purchase of Cellu-Craft Products Corp., the nation's largest independent converter, designer and printer of flexible packaging materials. Other acquisitions now under consideration are intended to further the growth and expansion of your company.

The management is appreciative of the devotion and tireless efforts of its employees, all of whom have contributed to the results shown for this year. Over the last few years, 627 employees have been granted options under our shareholder approved stock option and stock purchase plans. These grants, made in accordance with our management policy, have stimulated and rewarded individual effort and initiative and have created employee shareholders who have a direct ownership interest in the welfare of our company. It is my personal conviction that the achievements of this year, and the remarkable record of preceding years, are in good measure proof of the soundness of this philosophy.

Your management looks forward to 1961 confident that it will be another year of outstanding achievement.

Respectfully submitted,

M. Rikl

MESHULAM RIKLIS
Chairman of the Board and President

I. FINANCIAL REVIEW

Net sales for the fiscal year ended January 31, 1961, were \$37,567,151. The 1959 shareholders' report was prepared on a consolidated basis to include the sales and earnings of Butler Brothers, then a majority-owned subsidiary. Because McCrory Corporation is a 30 per cent owned subsidiary, the sales and earnings for the fiscal year ended January 31, 1961, are not reported on a consolidated basis. Hence, no meaningful comparison with previously reported sales and earnings can be made.

Net income after taxes for the fiscal year ended January 31, 1961, was \$7,233,205. Net income included a loss on operations of \$1,370,484, attributable almost in its entirety to the losses generated in the mail order division, and net special income items of \$8,603,689, which arose principally from

the sale of the Butler Brothers assets and the sale of the paper division. (The profit on the sale of the Butler Brothers assets was limited to Rapid-American's proportionate interest therein.)

The company continued its policy of regular quarterly dividends of 12.5 cents per share throughout the year.

During the fiscal year ended January 31, 1961, the shareholders' equity was increased by $10,438,998, representing $7.56 per share increase on 1,380,036 shares of common stock then outstanding. We are proud to refer you to the chart on page 7 of this report demonstrating the outstanding growth in net worth of your company over the past five years from $5,945,549 to $19,492,256.

The shareholder equity increase in 1960 was attributable not only to the increase in consolidated net income, but also to the conversion of a substantial proportion of the company's 5¾ per cent Convertible Subordinated Debentures, due April 30, 1964, into common shares. By January 31, 1961, only $3,997,100 of the original issue of $7,209,600 remained outstanding.

Effective January 31, 1961, your company's American Paper Specialty Division was sold for $11,750,000 in cash and notes. Sales of approximately $15,700,000 of this division are included in the total sales figure described above. The sale of this division was prompted principally by the fact that important customers, in the variety field for example, were increasingly reluctant to purchase paper products from a division of a company with important holdings in a competitive variety chain.

II. OPERATING DIVISIONS

The Rapid Electrotype Division converted its 1959 small overall divisional losses into a profit. The division anticipates improved performance in sales and earnings for the coming year by continuing its program of research, personnel development and improved production techniques.

American Art Works Division, one of the nation's leading manufacturers of metal signs and display cabinets, showed a substantial increase in sales over the previous year. The integration of The Brunhoff Manufacturing Company operations into our Coshocton, Ohio, plant was accomplished during 1960. Brunhoff, formerly located in Cincinnati, was acquired in the latter part of 1959. Planned economies and other advantages of this consolidation, completed towards the end of 1960, should be fully reflected in operations and earnings during 1961.

In recent months, the top divisional leadership has been reorganized under the direction of Sumner M. Levine, division president. In November 1960, Mr. Jack Saathoff, formerly production manager of Grace Signs, was made supervisor of the sign operations, and in February 1961, Mr. Taylor B. Toomey, with a background of 18 years in metal fabrication operations, was hired as general manager of the Coshocton plant.

A sales increase over the 1960 record high is anticipated by the division for the current year notwithstanding present economic conditions. Recorded earnings for the early part of 1961 reflect a substantial gain over the like period for 1960. It is expected that this trend of increased earnings, based upon improved sales, will hold for the current year.

In a major integration move completed early in 1961, L & C Mayers/Spors, our mail order division, initiated central warehousing in LeCenter, Minnesota, and consolidated buying, cataloging and production activities in new executive offices in Chicago. These two actions will result in improved service to customers, increased efficiencies and economies through a central office, and reduced

costs in order handling by the use of electronic data processing equipment.

To achieve this reorganization and to head the mail order operations, your company was fortunate in obtaining the services of Charles C. Rehfeldt, who had been a top merchandising executive with Montgomery Ward. Mr. Rehfeldt was named president of the division and a vice president of Rapid-American Corporation. Since joining the company in the late fall of 1960. Mr. Rehfeldt has added to his staff key executive and merchandising personnel with many years of specialized experience.

A new division engaged in the manufacture and distribution of plastic toys, novelties and other plastic products was established late in 1960 under the name ALAN JAY-CLAROLYTE DIVISION. It is a combination of The Clarolyte Company and Alan Jay Plastics, acquired in 1960. This consolidation has resulted in a division that is capable of supplying a complete, diversified line of hard and soft plastic products. It is directed by executives with a high degree of technical skill and experience.

The merged plastic division reflected a profit for the year 1960. Its 1961 line of plastic products was accorded an excellent reception at the recent toy show, and it is expected that sales and earnings will advance if the predicted improvement of the economic climate is realized.

III. EXECUTIVE PERSONNEL

During the fiscal year there were changes in your board of directors brought about by the resignations of B. G. Cantor, H. S. Divine, B. Kleiner and R. P. Miller.

The vacancies were filled by the election of Leonard C. Lane, James Heller and Herbert D. Silver.

The executive operating staff of the company has been strengthened by the appointments of George A. Greenberg as assistant to the president and Isidore A. Becker as vice president and treasurer.

IV. FUTURE DEVELOPMENTS

Your company during the past fiscal year endeavored to achieve a careful balance in its activities between the immediate objective of increased sales and earnings and plans for long-range growth. With economists predicting improved conditions for the balance of 1961, your company is in an excellent position to convert its investment in able personnel and new operations into increased sales and earnings. In addition, your company is enlarging its basic business activities through acquisitions.

To date, one such acquisition has been completed, namely, the purchase of Cellu-Craft Products Corp. The purchase was consummated on April 6, 1961, by issuing common stock of Rapid-American, in exchange for all of the outstanding stock of Cellu-Craft, to Samuel J. Levy and Sid Luckman, who together owned all of the outstanding stock in the packaging company. Mr. Levy, president of Cellu-Craft, will continue as chief executive officer of Cellu-Craft, which will be operated as a subsidiary of Rapid-American.

Cellu-Craft, with 1960 sales in excess of $10 million, is today the leading independent converter of flexible packaging materials designed and printed in cellophane, polyethylene, acetate, glassine, paper and foil, with complete art and plate-making facilities. In addition to its main plant in New Hyde Park, New York, Cellu-Craft operates three divisions: Laminex Corporation, a major extruder and laminator of packaging material; Gustave Rubner, Inc., engaged in the manufacture of gift wrappings, plastic wallpapers and display materials, and Transpak, Inc., of Hialeah, Florida, printers and converters of flexible packaging materials.

RAPID-AMERICAN CORPORATION
AND SUBSIDIARIES

Five-Year Summary of Net Income and Shareholders' Equity (1)

	1960	1959	1958	1957	1956 (2)
NET INCOME (3)	$ 7,233,205	$ 859,478	$ 1,037,879	$ 331,902	$ 1,070,400
NET INCOME PER SHARE (shares outstanding at end of year) (4)	$5.24	$ .77	$ .96	$ .33	$1.13
DIVIDENDS PER SHARE (4) . . . . . CASH	$ .42	$ .34	$ .31	$ .31	$ .41
STOCK	—	5%	—	5%	—
SHAREHOLDERS' EQUITY	$19,492,256	$ 9,402,473	$ 8,692,757	$ 7,608,731	$ 5,945,549
BOOK VALUE PER SHARE (4)	$14.12	$8.46	$8.07	$7.53	$6.29
SHARES OF COMMON STOCK OUTSTANDING (4)	1,380,036	1,110,941	1,076,643	1,010,946	945,701

NOTES: (1) Calendar year, except that 1960 is for fiscal year ended January 31, 1961.

(2) Includes American Colortype Company from May 1956.

(3) Includes special credits net of income tax, of $665,283 in 1956 (after minority interest); $106,206 in 1957; $301,169 in 1958; $281,541 in 1959; $8,603,689 in 1960; and tax refunds of $574,160 in 1958; $342,989 in 1959; $35,000 in 1960.

(4) Based upon shares outstanding at the end of each period, after applying retroactively the two-for-one splits of the common stock in January 1956 and 1957, 5% stock dividends in May 1957 and March 1959 and three-for-two split in 1960.

Accountants' Opinion

RAPID-AMERICAN CORPORATION:

We have examined the consolidated balance sheet of Rapid-American Corporation and subsidiaries as of January 31, 1961, and the related statements of consolidated income and shareholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and shareholders' equity, with their notes, present fairly the financial position of Rapid-American Corporation and subsidiaries as of January 31, 1961 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the one month ended January 31, 1960 and the year ended December 31, 1959.

HASKINS & SELLS
Certified Public Accountants
Haskins & Sells

New York, N. Y.

April 14, 1961

RAPID-AMERICAN

Consolidated

ASSETS

CURRENT ASSETS:		
Cash		$ 1,302,489
Notes receivable		3,015,000
Accounts receivable:		
Trade	$ 2,411,211	
Other	470,634	
	2,881,845	
Less reserves	78,081	2,803,764
Federal income tax refund based on carry-back provisions of Internal Revenue Code		35,000
Inventories—at lower of cost or market—(Note 1)		3,353,432
Prepaid expenses, etc.		437,204
TOTAL CURRENT ASSETS		10,946,889
INVESTMENT IN McCRORY CORPORATION—At cost (Note 2)		23,422,280
PROPERTY, PLANT, EQUIPMENT AND LEASEHOLD IMPROVEMENTS—At cost	4,969,274	
Less accumulated depreciation and amortization	2,913,885	
	2,055,389	
Net excess of cost of investment in subsidiary over underlying book value of assets at date of acquisition; less accumulated amortization	164,102	2,219,491
OTHER ASSETS AND DEFERRED CHARGES:		
Notes receivable (non-current portion)	6,843,500	
Unamortized debt discount and expense	484,816	
Other	219,609	7,547,925
TOTAL		$44,136,585

See notes to financial statements.

Balance Sheet JANUARY 31, 1961

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable		$ 2,303,753
Currently maturing debentures and notes payable		5,653,066
Accrued liabilities:		
Federal income taxes		79,625
Other taxes		117,489
Salaries, wages, commissions, etc.		207,610
Interest		199,055
TOTAL CURRENT LIABILITIES		8,560,598
DEFERRED FEDERAL INCOME TAX (Note 3)		330,000
OTHER LIABILITIES:		
7% Sinking Fund Subordinated Debentures due November 15, 1967, less Debentures in treasury, $2,240 (less current portion—Note 4)	$ 4,482,200	
5¾% Convertible Subordinated Debentures due April 30, 1964 (Note 5)	3,997,100	
4¾%-6% Notes due 1962 to 1964 (Note 6)	7,274,431	15,753,731
SHAREHOLDERS' EQUITY (per accompanying statement):		
5% cumulative preferred stock, $100 par value per share, redeemable at $105 per share; authorized 200,000 shares—none issued		
Common stock—authorized 10,000,000 shares of $1 par value each; issued 1,383,184 shares; less stock in treasury 3,148 shares; outstanding 1,380,036 shares (Notes 5 and 7)	1,380,036	
Capital surplus	9,078,592	
Earned surplus	9,033,628	19,492,256
TOTAL		$44,136,585

See notes to financial statements.

RAPID-AMERICAN CORPORATION
AND SUBSIDIARIES (NOTE 1)

Statement of Consolidated Income

FOR THE YEAR ENDED JANUARY 31, 1961

NET SALES		$37,567,151
DIVIDENDS RECEIVED		1,138,024
RENTALS, INTEREST AND SUNDRY INCOME—Net		204,557
		38,909,732
COST OF GOODS SOLD, RENT, ETC.		28,982,530
		9,927,202
DEDUCT:		
Operating, selling, general and administrative expenses	$8,432,999	
Interest charges	1,625,758	
Depreciation and amortization	646,699	
Taxes other than Federal income taxes	664,600	11,370,056
(LOSS) BEFORE CREDIT FOR FEDERAL INCOME TAXES		(1,442,854)
NET CREDIT FOR FEDERAL INCOME TAXES (based on carry-back provisions of Internal Revenue Code and adjustments of accruals)		72,370
NET (LOSS) FROM OPERATIONS		(1,370,484)
SPECIAL ITEMS:		
Equity in gain from sale of all assets of B.T.L. Corporation		6,505,985
Net profit on disposal of divisions, etc. (less estimated Federal income tax $330,000) (Note 3)		3,056,663
Extraordinary expenses in connection with moving mail order business from New York to Minnesota		(596,714)
Write-off of unamortized excess cost of investments in subsidiaries dissolved during the year		(362,245)
TOTAL ADDITION TO EARNED SURPLUS		$ 7,233,205

See notes to financial statements.

RAPID-AMERICAN CORPORATION

AND SUBSIDIARIES

FOR THE YEAR ENDED JANUARY 31, 1961

Statement of Shareholders' Equity

	TOTAL	OUTSTANDING COMMON STOCK	CAPITAL SURPLUS	EARNED SURPLUS
BALANCE, FEBRUARY 1, 1960	$9,053,258	$745,949	$5,932,771	$2,374,538
ADD (DEDUCT):				
Addition to earned surplus for the year ended January 31, 1961 per accompanying statement of consolidated income	7,233,205			7,233,205
Cash dividends paid, $.50 per share	(574,115)			(574,115)
Conversion of $3,212,500 face amount of 5¾% convertible subordinated debentures into 176,493 shares of common stock—par value credited to common stock account; excess of conversion price over par value (less cash paid for fractions) credited to capital surplus	3,209,763	176,493	3,033,270	
Three-for-two stock split in May 1960—400,340 shares of common stock issued; par value credited to common stock account and charged to capital surplus		400,340	(400,340)	
Stock issued under employee plans — 61,999 shares; par value credited to common stock account; excess of proceeds over par value credited to capital surplus	678,318	61,999	616,319	
Other—net	(108,173)	(4,745)	(103,428)	
BALANCE, JANUARY 31, 1961	$19,492,256	$1,380,036	$9,078,592	$9,033,628

See notes to financial statements.

Notes to Financial Statements

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and its operating subsidiaries. The following subsidiaries were acquired (by purchase of all outstanding capital stock) during the year:

Name of Subsidiary	*Date of acquisition*
United Leather Goods Corporation	June 30, 1960
United Zipper Bag Corporation	June 30, 1960
Alan Jay Plastics, Inc.	August 30, 1960

The consolidated financial statements include the first two subsidiaries named above commencing July 1, 1960 and Alan Jay Plastics, Inc. commencing September 1, 1960. Such operations are not material in relation to the consolidated operations of the Company and its operating subsidiaries. The inventories of the acquired companies, at acquisition dates, which were used in determining cost of goods sold, are book figures computed from sales data and other statistical material compiled by those companies.

The first two subsidiaries named above were sold as of November 30, 1960 (see Note 3 herein). Alan Jay Plastics, Inc. was dissolved and merged into L. & C. Mayers Co., Incorporated, a subsidiary, as of January 31, 1961.

2. INVESTMENT IN McCRORY CORPORATION:

The Company's former investment in B.T.L. Corporation (a little over 50% of the outstanding stock of B.T.L. Corporation which the Company carried at cost plus its equity in the undistributed earnings of B.T.L. Corporation) was converted into 1,625,748 shares of common stock of McCrory Corporation (the surviving corporation of the merger of B.T.L. Corporation and United Stores Corporation with McCrory-McLellan Stores Corporation) as of July 16, 1960. The 1,625,748 shares owned by the Company at January 31, 1961 represent a little over 30% of the outstanding common stock of McCrory Corporation and had a market quotation value of $23,979,783 at January 31, 1961 and $30,482,775 at April 6, 1961. The Company's equity in the net assets of McCrory Corporation based on its financial statements as of December 31, 1960 was in excess of the carrying value of the investment ($23,422,280) shown in the accompanying balance sheet. Reference is made to Note 6 herein for information concerning McCrory common stock pledged as collateral.

3. NET PROFIT ON DISPOSAL OF DIVISIONS, ETC.:

Under a contract which was completed in January 1961, the Company sold the assets and business of its American Paper Specialty Division to APS Paper Corp. (a corporation formed by and owned by former officers and employees of the Company). The assets and business of such Division included three operating subsidiaries—Second Washington Realty Corp. and two subsidiaries acquired as of June 30, 1960, as explained in Note 1 herein. The profit on the sale of such Division exceeded $3,000,000 before Federal income tax and will be reported on the instalment basis for tax purposes—the estimated Federal income tax ($330,000) which will be payable in future years has been provided and shown as deferred Federal income tax in the accompanying balance sheet. Net sales of such Division included in the accompanying statement of consolidated income amounted to $15,690,357 and its income before Federal income tax amounted to $609,538.

4. 7% SINKING FUND SUBORDINATED DEBENTURES:

The Company is obligated to make annual sinking fund payments (or to deposit principal amounts of reacquired debentures) on each November 15 sufficient to redeem 10% of debenture principal outstanding on the preceding October 31 of the years 1961 through 1966, inclusive. The sinking fund payment due November 15, 1960 was satisfied by the retirement of $460,000 of debentures purchased. The estimated sinking fund payment ($450,000) due November 15, 1961 has been included in current liabilities in the accompanying balance sheet.

5. 5¾% CONVERTIBLE SUBORDINATED DEBENTURES:

The issued debentures are convertible into common stock of the Company at rates ranging from $17⅞ to $19.00 principal amount of debenture for each share of common stock, and are callable upon notice at a premium of 1½%. Debentures in the face amount of $3,212,500 were converted into common stock during the year.

6. 4¾%-6% NOTES DUE 1962-1964:

$6,135,000 of these notes and $1,225,000 of notes included in current liabilities are secured by the pledge of 1,292,700 shares of McCrory Corporation common stock which are owned by the Company.

$1,135,370 of these notes were issued or assumed in connection with the acquisition of subsidiaries. Of such amount approximately $253,500 is held by persons who are still employed by a subsidiary of the Company.

7. COMMON STOCK AND STOCK OPTIONS:

On May 10, 1960 the Company's shareholders approved an increase in authorized common stock from 1,500,000 shares to 10,000,000 shares, and the issued shares were split on a three-for-two basis, the par value of $1 each remaining unchanged.

The Company's shareholders in prior years ratified Restricted Stock Option Plans under which 125,000 shares of the Company's common stock, including such stock in treasury, are subject to option at prices of not less than 95% of the market value at date of grant, and Employees Stock Purchase Plans under which 45,000 shares of the Company's common stock are subject to offer at prices of not less than 85% of the market value at date of grant. 90,386 shares of the Company's common stock have been issued under the foregoing plans through January 31. 1961. Options covering 131,747 shares are outstanding at January 31, 1961, expiration dates are from 1962 to 1968, and option prices per share are from $6.14 to $27.71. The aggregate of the prices for these outstanding options is approximately $2,122,000 and their approximate market quotation value on January 31, 1961 was $3,558,000. In accordance with the anti-dilution provisions of the plans, the options have been adjusted to reflect the effect of the foregoing stock split and stock dividends of prior years.

In December, 1960, the Board of Directors authorized a Restricted Stock Option Plan under which options covering an additional 150,000 shares of the Company's common stock have been authorized, and options covering 64,690 shares thereof have been granted, all subject to approval by the shareholders at their meeting to be held in May 1961.

8. OTHER MATTERS:

(a) There are several claims pending against the Company and its operating subsidiaries together with other contingencies. Such liability cannot be determined but management and counsel are of the opinion that the liabilities in the financial statements are adequate to cover all eventual payments.

(b) The Company and its subsidiaries are obligated directly or contingently under leases expiring after January 31, 1961 for minimum annual rentals of $446,000 and total rental obligations of $995,000.

(c) The Indentures covering the two Debenture issues of the Company (see Notes 4 and 5 herein) contain covenants which might affect the declaration or payment of dividends, or other distributions or purchases of the Company's stock. Under the most stringent of such covenants, the earned surplus of $9,033,628 at January 31, 1961 is not restricted.

(d) Reference is made to the Chairman's letter herein for information concerning the acquisition of Cellu-Craft Products Corporation in April 1961.

McCRORY CORPORATION

Annual Report TO STOCKHOLDERS

FOR THE YEAR ENDED DECEMBER 31, *1960*

CONTENTS

BOARD OF DIRECTORS

Carl V. Brandebury
B. Gerald Cantor
Patrick J. Clifford
*Roy F. Coppedge
Milton Heller
N. Baxter Jackson
Bernard Kobrovsky
Harold M. Lane
Harold M. Lane, Jr.
*Leonard C. Lane
*William L. Less
*James Lutz
Alfred T. Manacher
Edward L. Marks
Donald L. Miller
Charles C. Renshaw
*Meshulam Riklis
Julius Sanditen
David R. Schoales
*Leonard Spangenberg
Melvin Unterman
*Harry H. Wachtel
*Jacob S. Weinstein

**Executive Committee*

OFFICERS

Meshulam Riklis	*Chairman of Board of Directors*
James Lutz	*President*
Harry H. Wachtel	*Vice Chairman of Board of Directors, Executive Vice President*
Leonard Spangenberg	*Chairman of Executive Committee*
Roy F. Coppedge	*Chairman of the McCrory-McLellan Stores Division*
J. Neal Dow	*Senior Vice President*
Herbert D. Silver	*Financial Vice President & Treasurer*
M. O. Hill	*Vice President & President of McCrory-McLellan Stores Division*
Edward L. Marks	*Vice President & President of National Shirt Shops Division*
Julius Sanditen	*Vice President & President of Oklahoma Tire & Supply Division*
George A. Greenberg	*Vice President*
T. C. Lawrence	*Secretary*

COMMITTEE CHAIRMEN

Leonard Spangenberg	*Chairman of Executive Committee*
William L. Less	*Chairman of Finance Committee*
Jacob S. Weinstein	*Chairman of Acquisition Committee*
Charles C. Renshaw	*Chairman of Committee on Salary and Compensation*

AUDITORS Arthur Andersen & Co., New York, N. Y.

GENERAL COUNSEL Wachtel & Michaelson, New York, N. Y.

TRANSFER AGENTS

Common Stock 5½% Preference B Stock	Chemical Bank New York Trust Co. and First National Bank of Chicago
3½% Preferred Stock $6 Preference Stock	Morgan Guaranty Trust Co. of New York and First National Bank of Chicago

REGISTRARS

Common Stock 5½% Preference B Stock	Morgan Guaranty Trust Co. of New York and Continental Illinois National Bank and Trust Co. of Chicago
3½% Preferred Stock $6 Preference Stock	Chemical Bank New York Trust Co. and Continental Illinois National Bank and Trust Co. of Chicago

EXECUTIVE OFFICES 711 Fifth Avenue, New York 22, N. Y.

OPERATING EXECUTIVE COMMITTEE

James Lutz, *Chairman*
R. F. Coppedge, *Vice Chairman*

J. Neal Dow	Edward L. Marks	Julius Sanditen	Leonard Spangenberg
M. O. Hill	M. Riklis	Herbert D. Silver	Harry H. Wachtel

Divisions

McCRORY-McLELLAN STORES DIVISION

EXECUTIVE BOARD

R. F. Coppedge, *Chairman*
Leonard Spangenberg, *Vice Chairman*

J. Neal Dow	James Lutz	Julius Sanditen
M. O. Hill	Edward L. Marks	Harry H. Wachtel
	M. Riklis	

OFFICERS

R. F. Coppedge	*Chairman of Executive Board*
M. O. Hill	*President*
L. C. Shockley	*Senior Vice President*
T. C. Lawrence	*Financial Vice President & Treasurer*
E. C. Weyburn	*Vice President*
C. F. Carter, Jr.	*Vice President*
Bernard Oringer	*Vice President*
J. F. King	*Vice President*
C. R. Purdon	*Comptroller*

DIVISION OFFICE: 31-39 West 34th Street, New York, N. Y.

WAREHOUSES

New York, N. Y. • Brooklyn, N. Y. • Huntington, Pa. • Chicago, Ill. • Oklahoma City, Okla.

NATIONAL SHIRT SHOPS DIVISION

EXECUTIVE BOARD

H. S. Apter	James Lutz	M. Riklis	Herbert D. Silver	Harry H. Wachtel
Raymond S. Harris	Edward L. Marks	Harry Schneider	F. J. Tyrrell	

OFFICERS

Edward L. Marks	*President*
H. S. Apter	*Financial Vice President & Treasurer*
Phillip Blume	*Vice President in Charge of Merchandising*
F. J. Tyrrell	*Secretary*

DIVISION OFFICE: 19 West 34th Street, New York, N. Y.

OKLAHOMA TIRE & SUPPLY DIVISION

EXECUTIVE BOARD AND OFFICERS

Maurice Sanditen	*Chairman*
Julius Sanditen	*President*
Ely G. Sanditen	*Senior Vice President*
Abe Brand	*Vice President*
Samuel H. Minsky	*Secretary*
Herman Sanditen	*Treasurer*

DIVISION OFFICE: 6901 East Pine Street, Tulsa, Okla.

WAREHOUSES

Tulsa, Okla. • Little Rock, Ark.

To Our Stockholders:

McCrory Corporation has existed officially only since July 16, 1960. The company was created through a merger of McCrory-McLellan Stores Corp., United Stores Corp. and B.T.L. Corp. McCrory-McLellan Stores was a variety chain operating 445 retail stores in 36 states and the District of Columbia. United Stores owned approximately 39 per cent of the stock of McCrory-McLellan plus Cassels United Stores (an 18-store variety chain in the Southeast). B.T.L. Corp. contributed substantial cash equity, a cadre of experienced executives and a blueprint for the expansion of McCrory into a diversified retail merchandising and distributing organization.

The brief period since the merger has seen the transformation of this blueprint into the first stages of reality. This was accomplished through the acquisition of a series of key retail organizations along with the addition to our executive team of men with top echelon experience in retail management. With this combined nucleus of management ability and organizational range, we are moving rapidly toward the creation of a diversified retail merchandising entity operating with the most modern and efficient techniques of distribution.

Some of the events that have effected this transformation of McCrory since July 16 are described briefly below:

On October 1, 1960, the company acquired Oklahoma Tire & Supply Co. (Otasco), a chain of 88 owned auto accessory stores and 174 franchised stores located in Oklahoma, Missouri, Arkansas, Louisiana and Kansas. Otasco, in 1959, had recorded sales in excess of $35 million and net earnings after taxes of close to $2 million.

On December 20, 1960, the stockholders of McCrory and National Shirt Shops approved a merger of these two companies. National Shirt Shops, with 147 men's furnishings outlets from coast to coast, recorded sales of approximately $23 million and net earnings after taxes of approximately $725,000 for the fiscal year ended August 31, 1960.

In addition, McCrory Corp. added substantially to its holdings in H. L. Green Company, Inc., until by late autumn of 1960 it had acquired majority ownership of this variety store chain. On March 10, 1961, the directors of McCrory and H. L. Green approved in principle a merger of Green into McCrory. Upon completion of the merger agreement, special meetings of the stockholders of both companies will be called for the purpose of considering and approving the proposed merger, full details of which will be furnished in a proxy statement. For your information, we are sending you the Annual Report of H. L. Green Co. for the fiscal year 1960.

On March 7, 1961, McCrory purchased 197,670 of the 1,242,300 common shares outstanding of Lerner Stores Corporation, a women's and children's apparel chain. Of these shares, 87,670 were acquired from Harold M. Lane, president and chief executive officer of Lerner Stores, and members of his family, in exchange for McCrory notes and warrants. The long-term notes are payable within 15 years and bear interest at the rate of 5½ per cent annually. They have been issued at the rate of $40 principal amount for each share of Lerner common stock. For each share of Lerner common stock, warrants have been issued permitting the purchase of 1½ shares of McCrory common stock at $20 per share for a period of 15 years. McCrory purchased an additional 110,000 shares of Lerner common stock from Burlington Industries, Inc., for approximately $33 per share in cash. Under the purchase contracts, your company agreed to offer present Lerner common shareholders similar terms of sale—either on the basis of $33 cash per share or of subordinated debentures and warrants after proper registration.

Lerner currently operates 304 stores in 44 states in the United States and is planning to open 16 additional stores in the current year. With one exception, all 16 will be located in major shopping centers; the one exception is a downtown store in San Juan, Puerto Rico, the company's second store in Puerto Rico. The Lerner Stores sales were $188,987,988 for the year ended January 31, 1960, and earnings after taxes were $3,368,951.

Concurrent with its expansion program, your company has been pursuing a long-range policy of internal growth and improvements highlighted by the opening of new stores, the introduction of new merchandising techniques and an increase in general operating efficiency. Most significant, in our view, has been the addition of a group of aggressive, experienced merchandising executives to the McCrory team.

In September, 1960, James Lutz, formerly with Sears, Roebuck & Co., joined our company and was elected president of McCrory Corp. on October 10, 1960. He was joined by a number of other able executives, including J. Neal Dow, formerly president of Vanity Fair Mills and Laros, Inc., who was elected senior vice president and assistant to the president.

The appointments of Messrs. Lutz and Dow to top executive posts at McCrory were accompanied by a series of appointments and promotions commensurate with the requirements of the company's expansion program. An initial step in this direction involved the realignment of executive responsibility in the McCrory-McLellan Stores Division. R. F. Coppedge continued in his post as division chairman, while M. O. Hill moved up from executive vice president to succeed Floyd M. Paul upon the latter's retirement as president. Mr. Paul, recognized as one of the most creative minds in merchandising, was responsible for McCrory's development of self-service.

The development of merchandising techniques in the McCrory-McLellan division was enhanced by the promotion of Loren C. Shockley from vice president in charge of

merchandising to senior vice president and general merchandising manager. Creed F. Carter, Jr., was elevated from general superintendent to fill the important new position of vice president in charge of the New Stores Division.

Julius Sanditen, formerly executive vice president of Oklahoma Tire & Supply Co., was appointed president of the division and elected a vice president and director of McCrory Corp. Edward L. Marks, who continued as president of National Shirt Shops, was also elected a vice president and director of McCrory.

As an incentive to people of outstanding ability, your company, with the approval of its stockholders, established restricted stock option plans for officers and executives, and stock purchase plans for key employees of all divisions. Approximately 80 officers and executives of all divisions of McCrory Corp. have been granted options permitting the purchase of common stock at 95 per cent of the New York Stock Exchange quotation at the time options are granted. The executives are limited in the exercise of these options to a fixed amount of stock per year. Most of the company's plans allow for the purchase of no more than 20 per cent of the shares at yearly intervals.

For key employees of McCrory-McLellan Stores, National Shirt Shops and Oklahoma Tire & Supply, your company adopted Employees Stock Purchase Plans providing for the sale of 115,000 shares of McCrory common stock. These key employees include employees on the supervisory level ineligible for stock options, such as department managers and heads, store managers and assistant managers. Stock purchases under these plans are payable over a period of four years through salary deductions and permit the purchase of stock at 85 per cent of the New York Stock Exchange quotation at the time the options are granted. No employee of McCrory Corp. receiving restricted stock options may participate in these stock purchase plans.

The net effect of all these developments has been to make McCrory Corp. a leading factor in the variety chain field, with a strong position in such other retail merchandising areas as auto accessories, men's furnishings and women's and children's wear. Our objective for 1961 is to continue to develop your company into a rounded retail organization with ever-increasing profit yields by utilizing the most efficient techniques of business management.

Respectfully submitted,

M. Riklis

M. RIKLIS, *Chairman of the Board*

James Lutz

JAMES LUTZ, *President*

March 29, 1961

Financial Review

The statement of consolidated net income of the McCrory Corporation for the year ended December 31, 1960, indicates total sales of $232,037,405.

Consolidated net income after taxes was $3,886,032 before special items, and $19,126,649 after special items. Earnings per common share after payment of dividends on preferred and preference stock were slightly in excess of 58 cents per share before special items of $2.92 per share.

Dividends paid on common shares totaled $3,693,396 and on preferred and preference shares, $849,979.

The statement of consolidated net income was prepared in accordance with sound accounting principles as approved by our independent public accountants, Arthur Andersen & Co.

In that connection, therefore, sales and earnings of the Oklahoma Tire & Supply Company, now a division of McCrory, are excluded during that portion of the year prior to acquisition by McCrory. Sales and earnings of H. L. Green Company, Inc., are excluded during that portion of the year prior to acquisition of majority ownership by McCrory. Sales and earnings of National Shirt Shops are reflected for the fiscal year ended August 31, 1960, based on the "pooling of interests" method of accounting.

For information purposes only, we have made a statistical compilation indicating that the combined sales volume of the McCrory-McLellan Stores, H. L. Green Co., Inc., Otasco and National Shirt Shops (each on a twelve-month basis) aggregated approximately $350,000,000.

The net investment in stores and other operating facilities (excluding H. L. Green's Canadian subsidiaries) totaled $65,860,260 (after reduction for depreciation reserves of $56,027,686).

Provision for depreciation and amortization reflected in our 1960 earnings statement amounted to $4,345,584. (On a full-year basis, total depreciation taken by the operating entities was about $6,400,000.)

Cash and other current assets reflected on the December 31, 1960, consolidated balance sheet amounted to $108,696,598. Current liabilities were $45,359,134. The working capital (excess of current assets over current liabilities) balance was $63,337,464 for a ratio of 2.4 to 1.

On January 31, 1961, an arrangement providing for the sale of customers' installment accounts on a continuing basis was made by McCrory with a group of banks located in the Otasco trading area. Thus, the corporation has the immediate use of 85 per cent of the amounts generated by credit sales which formerly took up to three years to collect. (The sale of these accounts is not reflected in the December 31, 1960, balance sheet.)

That portion of the long-term debt shown as 5.235 per cent subordinated notes amounting to $17,862,-845 is payable in annual installments commencing February 16, 1962, over a ten-year period and arose out of the purchase of the Oklahoma Tire & Supply Company stock.

The shareholders' equity on December 31, 1960, amounted to $100,992,762. If this amount is reduced by the par value of the preferred and preference classes of stock, the balance equals $79,658,562 or $15.25 per share of common stock.

The classes of preferred stock, preference stock and common shares outstanding are described in the accompanying balance sheet.

No meaningful comparison with previous results of operations or financial condition has been reported since McCrory Corporation commenced as a legal entity on July 16, 1960, and included in its ownership companies acquired at different times during the balance of the year.

(left) *Open-face fixtures permit maximum display of goods in existing floor space.*

(right) *Panoramic view of ultra-modern McCrory unit shows easy accessibility of merchandise for self-service.*

(left) *Soft goods have been slated for key role in company's new merchandising program.*

(right) *Enthusiastic shoppers crowd new store opening.*

McCrory-McLellan Stores Division

The 445 stores of the original McCrory and McLellan chains service 36 states from Maine to Arizona and Minnesota to Florida, as well as the District of Columbia. A total of 10 new stores were opened in 1960. Implementing the company's far-reaching expansion program, management has 40 new store locations planned and expects to open 30 new stores in 1961. A few of the smaller, unprofitable units are being closed.

Management is carefully studying the profit potential of each unit and the particular needs of the community it serves. In place of the stereotyped store featuring stock merchandise, we plan to service each outlet with an inventory tailored to the specific buying preferences of the area. Our New Stores Division has been applying a variety of merchandising techniques in some of the new units opened in 1960. Other strategies are currently being tested in four stores selected for the application of new sales and merchandising methods.

(left) McCrory unit in shopping center has brick and glass facade for ultra-modern look.

(right) McLellan's newest store features picture windows for interior view.

Oklahoma Tire & Supply Division

The Oklahoma Tire & Supply Division operates 87 company-owned home-auto supply stores, and has franchise agreements with 174 associated stores, all in Oklahoma, Arkansas, Kansas, Missouri and Louisiana. Under its program of expansion, Otasco added 10 company and 15 associate stores during 1960. Supported by a strong advertising and promotion program, Otasco has built an enviable reputation as a progressive, community-minded company.

Otasco's success has posed the inevitable problem of growth: the need for both additional capital and management talent. By joining McCrory Corp., Otasco now has available the funds necessary for continued expansion. To facilitate this expansion program, it is placing particular emphasis on the development of managers, assistant managers and supervisors to assume responsibility for new units and operating functions in the chain.

The company sells more than 6,500 different items, including major home appliances, housewares, hardware, sporting goods, lawn and garden supplies. Home appliance sales, which the firm plans to expand further, now account for 30 per cent of volume.

Oklahoma Tire & Supply store features a complete line of auto accessories, garden supplies, home appliances and toys.

Exterior provides open view of merchandise in modern architectural motif.

National Shirt Shops Division

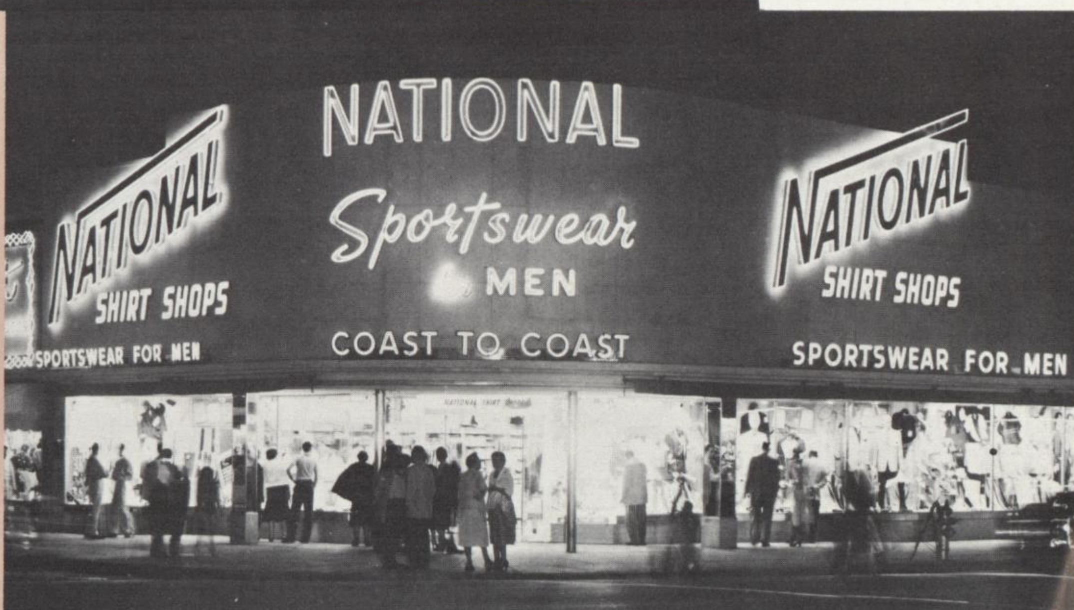
National Shirt Shops, America's leading men's furnishers, is a national organization with 148 stores located in 103 communities in 27 states. The stores are grouped in the country's great population concentrations, particularly in California, Florida, and along the eastern seaboard, where business stability is assured by industrial and commercial diversity.

Continuing its expansion program, which saw nine new stores added in 1960, the company plans to open 11 new units in 1961. Most of the new stores—a total of 48 since 1955—have been located in suburban shopping centers. The development and expansion of National Shirt Shops in suburban shopping centers across the country will be enhanced by its position as the only national men's furnishings chain in the U. S.

The company has been continuously expanding its clothing lines. It now sells all types of men's wear as well as boys' clothing. Another important feature, in view of the growing importance of leisure activities, is its large selection of sportswear.

National Shirt Shops, celebrating its 50th anniversary in October, has always been the pacesetter in its field. It was the first men's furnishings company to initiate self-service. Recently, it successfully introduced credit sales. Assisted by the broad financial backing of McCrory Corp., National Shirt Shops will show continued growth characterized by additional new shopping center locations and broadened clothing lines.

National Shirt Shops interior has wide aisles and open-top displays for self-selling.



Show windows strikingly display men's and boys' wear at popular prices.

McCROR

680 Stores Througho

McCRORY-McLELLAN STORES

ALABAMA
Bessemer
Florence
Gadsden
Huntsville (2)
Sheffield

ARIZONA
Flagstaff
Tucson (4)

ARKANSAS
Eldorado
Fort Smith
Jonesboro
Little Rock

CONNECTICUT
Bristol
Danbury
South Norwalk
West Hartford
Westport

DELAWARE
Dover
East Dover

DIST. OF COL.
Washington

FLORIDA
Arcadia
Bartow
Clearwater
Daytona Beach (2)
Deland
Ft. Lauderdale
Fort Myers (2)
Fort Pierce
Gainesville
Hialeah
Homestead
Jacksonville
Key West
Kissimmee
Lake City
Lakeland
Leesburg
Live Oak
Melbourne
Miami
Miami Beach
New Smyrna
Ocala
Orlando (3)
Palatka
Panama City
Plant City
Punta Gorda
Quincy
Sanford
Sarasota
St. Augustine
St. Petersburg (3)
Tallahassee
Titusville
Wauchula
West Palm Beach
Winter Garden
Winter Haven

GEORGIA
Americus
Athens
Atlanta
Augusta
Bainbridge
Columbus
Cordele (2)
Dalton
Dublin
East Point
Fitzgerald
Gainesville
Griffin
La Grange
Marietta
Moultrie
Rome
Savannah
Statesboro
Thomasville
Thompson
Tifton
Valdosta
Waycross

ILLINOIS
Bloomington
Galesburg
Kankakee
Kewanee
La Salle
Melrose Park
Ottawa
Pekin

INDIANA
Anderson
Elkhart
Huntington
Indianapolis
Kokomo
Lafayette
La Porte
Mishawaka
Richmond

IOWA
Albia
Cedar Rapids
Centerville
Clinton
Creston
Fort Dodge
Mason City
Shenandoah
Washington
Waterloo

KANSAS
Arkansas City
Dodge City
Eldorado
Emporia
Hiawatha
Kansas City
Topeka
Winfield

KENTUCKY
Lexington
Louisville

LOUISIANA
Baton Rouge
Lafayette
New Orleans (2)

MAINE
Augusta
Belfast
Sanford
Skowhegan
Waterville
Westbrook

MARYLAND
Baltimore (2)
Cambridge
Crisfield
Cumberland
Easton
Frederick
Hagerstown
Salisbury

MASSACHUSETTS
Amherst
Boston
Canton
Charlestown
Dedham
Fall River
Greenfield
Hyannis
Hyde Park
Lynn
Milford
Norfolk Downs
Norwood
Plymouth
Southbridge
Wareham
Whitinsville
Winchendon

MICHIGAN
Adrian
Albion
Alpena
Battle Creek
Benton Harbor
Grand Haven
Greenville
Holland
Ionia
Ironwood
Jackson
Lapeer
Niles
Petoskey
Sturgis
Traverse City
Ypsilanti

MINNESOTA
St. Paul
Virginia

MISSISSIPPI
Columbia
Columbus
Greenville
Greenwood
Gulfport
Jackson
Laurel
McComb
Natchez
Pascagoula
Yazoo City

MISSOURI
Kirksville
St. Louis

NEW HAMPSHIRE
Milford

NEW JERSEY
Atlantic City
Burlington
Camden
Clifton
Jersey City
Newark
Orange
Passaic
Perth Amboy
Rahway
Union

NEW MEXICO
Albuquerque (4)
Farmington
Hobbs

NEW YORK
Amityville
Bay Shore, L. I.
Brooklyn
Farmingdale
Flushing, L. I.
Glen Cove
Gloversville
Johnson City
Long Beach
Long Island City
New York City (2)
Rego Park
Patchogue
Riverhead
Syracuse

NORTH CAROLINA
Albemarle
Burlington
Charlotte
Concord
Dunn
Elizabeth City
Fayetteville
Fort Bragg
Goldsboro
Greenville
Hendersonville
Hickory
High Point
Kinston
Lexington
Mt. Airy
New Bern
Raleigh
Roanoke Rapids
Rocky Mount
Salisbury
Tarboro
Thomasville
Washington
Wilmington
Wilson

OHIO
Canton
Dayton
Delaware
East Liverpool
Hamilton
Kent
Springfield
Steubenville
Youngstown

OKLAHOMA
Ada
Altus
Chickasha
Claremore
Clinton
Drumright
Duncan
Elk City
El Reno
Holdenville
Lawton
Nowata
Perry
Pryor Creek
Stillwater
Sulphur
Vinita

PENNSYLVANIA
Allentown
Altoona
Barnesboro
Bethlehem
Bradford
Bristol
Brookville
Cannonsburg
Carlisle
Carnegie
Chambersburg
Charleroi
Chester
Clearfield
Connellsville
Cresson
Donora
Du Bois
Ebensburg
Edwardsville
Emporium
Fairless Hills
Franklin
Greensburg
Hanover

*Number in parentheses after city indicates multiple locations in each city

Y CORPORATION

ut the United States*

Hazleton
Homestead
Huntingdon
Indiana
Johnstown
Kane (2)
Lancaster
Lebanon
Lewistown
Monongahela
Mt. Pleasant
Muhlenberg
Patton
Philadelphia (2)
Philipsburg
Pittsburgh (2)
Portage
Pottstown
Punxsutawney
Reading
Reynoldsville
Scottdale
Shavertown
Somerset
Tyrone
Vandergrift
Waynesboro
Waynesburg
Windber
Wyoming
York (3)

RHODE ISLAND
Bristol
Providence
Westerly

SOUTH CAROLINA
Abbeville
Aiken
Anderson
Chester
Columbia
Darlington
Florence
Gaffney
Greenwood (2)
Greer
Newberry
Orangeburg
Rock Hill
Spartanburg
Sumter
Union

TENNESSEE
Bristol
Chattanooga
Clarksville
Columbia
Jackson
Johnson City
Kingsport
Knoxville
Memphis
Morristown
Murfreesboro (2)
Nashville
Oak Ridge
Whitehaven

TEXAS
Abilene
Big Spring
Borger
Corsicana
Dallas
Denton
Fort Worth (2)
Galveston
Greenville
Harlingen
Laredo
Marshall
McAllen (2)
Nacogdoches
Palestine
Pampa
Paris
Perryton
Port Arthur
San Angelo
San Antonio
Sherman
Taylor
Temple
Terrell
Waco
Wichita Falls

VERMONT
Montpelier
St. Johnsbury

VIRGINIA
Arlington
Cape Charles
Charlottesville
Front Royal
Harrisonburg
Petersburg
Pulaski
Roanoke
Staunton
Suffolk
Winchester

WEST VIRGINIA
Charleston
Clarksburg
Fairmount
Grafton
Huntington
Mannington
Martinsburg
Morgantown
New Martinsville
Parkersburg
Wheeling

WISCONSIN
Antigo
Beloit
La Crosse
Marinette
Marshfield
Merrill
Monroe
Oconomowoc
Platteville
Stevens Point
Sturgeon Bay

OKLAHOMA TIRE & SUPPLY STORES

ARKANSAS
Blytheville
Camden
Crossett
Fayetteville
Ft. Smith
Hot Springs (2)
Jacksonville
Jonesboro
Little Rock (3)
Malvern
N. Little Rock (2)
Paragould
Pine Bluff

KANSAS
Arkansas City
Hutchinson
Liberal
Wellington
Wichita (8)

MISSOURI
Carthage
Joplin (2)
Poplar Bluff
Springfield (3)

OKLAHOMA
Ada
Bartlesville (2)
Blackwell
Chickasha
Claremore
Cushing
Duncan
El Reno
Enid (2)
Henryetta
Lawton
Miami
Midwest City (2)
Muskogee (2)
Norman
Oklahoma City (14)
Okmulgee
Ponca City
Sand Springs
Sapulpa
Shawnee
Tulsa (12)
Woodward

NATIONAL SHIRT SHOPS

ALABAMA
Birmingham (2)
Mobile
Montgomery

ARIZONA
Phoenix
Tucson

ARKANSAS
Little Rock

CALIFORNIA
Buena Park
Fresno
Hollywood
Long Beach
Los Angeles (2)
Oakland
Sacramento
San Bernardino
San Diego (3)
San Francisco (2)
San Jose
San Mateo
Santa Monica
Pasadena

COLORADO
Denver (3)

DISTRICT OF COLUMBIA
Washington (5)

FLORIDA
Daytona Beach
Ft. Lauderdale
Hialeah
Jacksonville (2)
Key West
Miami (6)
Orlando
Panama City
Pensacola
St. Petersburg
Sarasota
Tallahassee
Tampa (3)
W. Palm Beach

GEORGIA
Atlanta (5)
Columbus

INDIANA
Indianapolis (2)

KANSAS
Mission

KENTUCKY
Louisville (2)
Pleasure Ridge Park

LOUISIANA
Baton Rouge (2)
Metaire
New Orleans (4)
Shreveport

MARYLAND
Baltimore (2)
Cumberland
Hyattsville
Wheaton

MASSACHUSETTS
Boston
Peabody

MISSISSIPPI
Jackson

MISSOURI
Jennings
Joplin
Kansas City (4)
Maplewood
St. Louis (5)
Springfield

NEBRASKA
Omaha

NEW JERSEY
Newark
Paramus
Paterson

NEW MEXICO
Albuquerque

NEW YORK
Buffalo
Hicksville
Latham
New York
Valley Stream
West Seneca

NORTH CAROLINA
Asheville
Charlotte
Greensboro

OHIO
Cincinnati (2)
Cleveland
Columbus

OREGON
Portland (2)

SOUTH CAROLINA
Charleston
Columbia

TENNESSEE
Chattanooga
Knoxville
Madison
Memphis (3)
Nashville
Oak Ridge

TEXAS
Amarillo
Beaumont
Corpus Christi
Dallas (5)
Ft. Worth
Houston (2)
Lubbock
Mesquite
San Antonio (4)
Waco

UTAH
Salt Lake City

VIRGINIA
Norfolk
Richmond (2)

Consolidated Balance Sheet

DECEMBER 31, 1960 (NOTE 1)

McCRORY

ASSETS

CURRENT ASSETS:		
Cash		$ 29,562,854
Accounts Receivable—		
Customers' accounts (Note 3)	$ 9,445,102	
Other	1,626,098	11,071,200
Merchandise inventories (Note 4)		64,531,768
Prepaid rents, insurance, taxes, store supplies, etc.		3,530,776
Total current assets (Note 5)		$108,696,598
STORE PROPERTIES OF H. L. GREEN CANADIAN SUBSIDIARIES, contracted on March 2, 1961 to be sold for cash (Note 5)		8,672,327
FIXED ASSETS, at cost (excluding properties of H. L. Green Canadian subsidiaries):		
Store properties and warehouses	$ 10,874,038	
Furniture, fixtures and equipment	64,209,437	
Improvements to leased property	46,804,471	
	$121,887,946	
Less—Reserves for depreciation and amortization	56,027,686	65,860,260
OTHER ASSETS:		
Unamortized debenture discount (Note 3)	$ 4,395,078	
Goodwill, less amortization of $125,000 (Note 3)	1,227,627	
Receivable due in installments to 1965 (Note 11)	1,040,000	6,662,705
		$189,891,890

The accompanying notes to consolidated financial statements

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Notes payable to banks		$ 6,400,000
Current maturities of long-term debt (Note 3)		5,606,245
Accounts payable		16,741,988
Accrued expenses and sundry liabilities		11,720,980
Accrued Federal and Canadian taxes on income		4,889,921
Total current liabilities (Note 5)		$ 45,359,134
LONG-TERM DEBT, less current maturities:		
5.235% subordinated notes (Notes 3 and 6)	$ 17,862,845	
3¾% unsecured notes due in installments to 1965	675,505	
3½% to 4¾% mortgage loans	515,000	19,053,350
DEFERRED ITEMS:		
Deferred Federal and Canadian taxes on income	$ 744,618	
Other	848,077	1,592,695
MINORITY INTEREST IN H. L. GREEN COMPANY, INC.		22,893,949
SHAREHOLDERS' EQUITY (Notes 1, 2, 7 and 9):		
Preferred stock, cumulative, $100 par value, series issue, authorized 79,679 shares—3½% series, cumulative convertible, 59,679 shares authorized and outstanding	$ 5,967,900	
$6 cumulative convertible preference stock, $100 par value—95,695 shares authorized and outstanding	9,569,500	
Preference B stock, $100 par value, series issue, authorized 250,000 shares—5½% series, cumulative (subordinated and convertible) authorized 58,500 shares, issued 57,968 shares	5,796,800	
Common stock, $.50 par value—Authorized 10,824,626 shares, issued 5,388,633 shares	2,694,317	
Capital surplus	20,850,557	
Earned surplus (Note 7)	58,282,109	
	$103,161,183	
Less—165,574 shares of treasury stock, at cost	2,168,421	100,992,762
		$189,891,890

are an integral part of the above balance sheet.

Statement of Consolidated Net Income (Note 1)

For the Year Ended December 31, 1960

McCRORY

NET SALES—merchandise, restaurant and concession		$232,037,405
COST OF GOODS SOLD, SELLING, OPERATING AND ADMINISTRATIVE EXPENSES, including depreciation and amortization of $4,345,584		222,681,468
Operating profit		$ 9,355,937
OTHER EXPENSE (net):		
Interest expense	$832,561	
Less—investment income and miscellaneous net income	729,847	102,714
Profit before provision for income tax		$ 9,253,223
PROVISION FOR FEDERAL AND CANADIAN INCOME TAXES		4,654,710
Net income before elimination of minority stockholders' equity in earnings of H. L. Green Company, Inc.		$ 4,598,513
MINORITY STOCKHOLDERS' EQUITY IN EARNINGS OF H. L. GREEN COMPANY, INC.		712,481
Net income applicable to shareholders of McCrory Corporation (Note 1)		$ 3,886,032
SPECIAL ITEMS:		
Net gain on February 11, 1960 sale of assets of B.T.L. Corporation, not subject to Federal income tax (Note 10)		$ 15,910,129
Expenses incident to mergers of B.T.L. Corporation, United Stores Corporation and National Shirt Shops of Delaware, Inc. (Notes 1 and 2) . . . . ,		(669,512)
Total special items		$ 15,240,617
Net income and special items		$ 19,126,649

The accompanying notes to consolidated financial statements are an integral part of the above statement.

Statements of Consolidated Surplus

FOR THE YEAR ENDED DECEMBER 31, 1960

CORPORATION *and Subsidiary Companies*

		Earned Surplus	*Capital Surplus*
BALANCE, BEGINNING OF PERIOD:			
McCrory Corporation, December 31, 1959		$43,993,290	$12,075,463
B.T.L. Corporation, January 31, 1960		16,821,578	393,575
United Stores Corporation and subsidiary, December 31, 1959		136,994	1,793,703
National Shirt Shops of Delaware, Inc., August 31, 1959, less $90,000 dividends paid during four months ended December 31, 1959		7,707,338	–
ADD (DEDUCT):			
Transactions incident to the "pooling" of predecessor companies with the Company (Note 2)—			
Cancellation of constituent company intercompany investments and retirement of treasury stock of merged companies		(16,697,938)	(5,546,139)
Issuance of McCrory Corporation stock for constituent companies' stock		(8,684,745)	11,721,891
Balance, beginning of period—adjusted		$43,276,517	$20,438,493
Net income and special items for the year ended December 31, 1960 (Note 1)		19,126,649	–
Net income of National Shirt Shops of Delaware, Inc. for the four months ended December 31, 1960 (Note 1)		524,646	–
Dividends paid during the year:			
McCrory Corporation—common ($.80 per share), after eliminating intercompany dividends	($2,920,495)		
B.T.L. Corporation—common ($.45 per share)	(424,624)		
National Shirt Shops of Delaware, Inc.—common ($.90 per share) after eliminating intercompany dividends	(348,277)		
3½% series, cumulative convertible preferred stock ($3.50 per share)	(208,789)		
$6 cumulative convertible preference ($6.00 per share)	(641,190)	(4,543,375)	–
Excess of equity in underlying net assets of H. L. Green Company, Inc. over the cost of the investment therein		–	405,351
Excess of cost of 100,000 shares of treasury stock over proceeds from sale thereof (Note 11)		(69,238)	–
Excess of cost of 3,000 shares of treasury stock issued under stock option plan over option price (Note 9)		(17,290)	–
Other—net		(15,800)	6,713
BALANCE, December 31, 1960 (Note 7)		$58,282,109	$20,850,557

The accompanying notes to consolidated financial statements are an integral part of the above statements.

ARTHUR ANDERSEN & CO.

80 PINE STREET
NEW YORK 5

To the Board of Directors of

McCrory Corporation:

We have examined the consolidated balance sheet of McCrory Corporation (a Delaware corporation) and subsidiary companies as of December 31, 1960, and the related statements of consolidated net income and consolidated surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records of the Company and its subsidiaries and such other auditing procedures as we considered necessary in the circumstances. We did not examine the Oklahoma Tire and Supply Company financial statements for the three months ended December 30, 1960 (date of its merger into McCrory Corporation) which are included in the McCrory Corporation consolidated financial statements, but we were furnished with reports of other independent public accountants thereon.

In our opinion, based upon our examination and upon the reports of other independent public accountants referred to above, the accompanying consolidated balance sheet and the related statements of consolidated net income and consolidated surplus present fairly the financial position of McCrory Corporation and subsidiary companies as of December 31, 1960, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
March 23, 1961.

Notes to Consolidated Financial Statements December 31, 1960

(1) Principles of consolidation:

The accompanying consolidated financial statements as of December 31, 1960 include all wholly-owned subsidiaries, as well as the several businesses formerly operated as B.T.L. Corporation, United Stores Corporation, National Shirt Shops of Delaware, Inc. and Oklahoma Tire and Supply Company, all merged into the Company during the year. In addition, the accounts reflect the consolidation of H. L. Green Company, Inc. which became a majority owned company early in November, 1960.

The results of operations for the year ended December 31, 1960 exclude those of B.T.L. Corporation for the period prior to February 11, 1960, date of sale of all its operating assets to City Products Corporation (see note 10). Income and costs and expenses of the merged, acquired and majority owned companies are included in the accompanying statement of consolidated net income as follows:

B.T.L. Corporation	—February 12 through July 16, 1960 (date of merger)
United Stores Corporation	—January 1 through July 16, 1960 (date of merger)
National Shirt Shops of Delaware, Inc.	—Fiscal year ended August 31, 1960 (net income of $524,646 for the four months ended December 31, 1960 was credited directly to earned surplus)
Oklahoma Tire and Supply Company	—October 1, 1960 (effective date of acquisition as recognized for accounting purposes) through December 31, 1960
H. L. Green Company, Inc.	—November 1, 1960 (approximate date of acquisition of majority control) through December 31, 1960

Net income included in the statement of consolidated net income for Oklahoma and Green amounted to $1,280,000, compared with $2,070,000 total net income of Oklahoma for the calendar year 1960 plus Green for its fiscal year ended January 31, 1961.

(2) Transactions incident to the "pooling" of merged companies:

On July 16, 1960, United Stores Corporation, owner of 39% of the outstanding common stock of the Surviving Corporation, and B.T.L. Corporation, owner of 77% of the outstanding common stock and 44% of the outstanding second preferred stock of United Stores Corporation, were merged into McCrory-McLellan Stores Corporation, and the name of the Surviving Corporation was changed to McCrory Corporation. This merger has been treated for accounting purposes as a "pooling of interests," and, on the merger date, the assets and liabilities of B.T.L. and United (including its wholly-owned subsidiary, Cassels United Stores, Inc.) were recorded on the books of McCrory at the amounts at which they were carried on the respective books of B.T.L. and United, immediately prior to their merger, except that shares of stock of United owned by B.T.L., shares of stock of McCrory owned by United and the treasury shares of B.T.L. and United have been cancelled. On December 20, 1960, National Shirt Shops of Delaware, Inc. was merged into McCrory. This merger has also been treated for accounting purposes as a "pooling of interests" in the same manner as described above.

The balances in the respective surplus accounts of the merged companies were "pooled" with the surplus of the Surviving Corporation, with the following adjustments:

	(DEBIT) *Earned Surplus*	CREDIT *Capital Surplus*
Cancellation of intercompany investment and treasury stock:		
Excess of cost of United investment in 1,305,021 shares of McCrory Common Stock (cancelled) over the par value thereof	($ 4,076,192)	($ 4,679,898)

	(DEBIT) CREDIT	
	Earned Surplus	*Capital Surplus*
Excess of cost of B.T.L. investment in 394,795 shares of United Common Stock and 495,195 shares of United $4.20 Second Preferred Stock over the par value thereof	($ 6,655,774)	($ 789,508)
Excess of cost of 224,217 shares of B.T.L. treasury stock over the par value thereof	(4,085,257)	(76,733)
Excess of cost of McCrory investment in 127,956 shares of National Common Stock over the par value thereof	(1,880,715)	—
	($16,697,938)	($ 5,546,139)

Issuance of McCrory Corporation Stock in exchange for merged companies' stock:

	(DEBIT) CREDIT	
	Earned Surplus	*Capital Surplus*
Excess of par value of outstanding B.T.L. Common Stock over the par value of 2,828,160 shares of McCrory Common Stock issued (3 for 1) in exchange therefor	$ —	$12,726,720
Excess of par value ($100) of 95,695 shares of McCrory $6 Cumulative Convertible Preference Stock issued (1 for 1) in exchange for United $6 Cumulative Convertible Preferred Stock over the stated value ($25) thereof	(3,209,989)	(3,967,136)
Excess of par value of remaining shares of United Common Stock (other than 473 treasury shares and 394,795 shares owned by B.T.L., which were cancelled) over the par value of 25,315 shares of McCrory Common Stock issued (3 for 14) in exchange therefor	$ —	$ 46,412
Excess of par value of remaining shares of United $4.20 Second Preferred Stock (other than 327 treasury shares and 495,195 shares owned by B.T.L., which were cancelled) over the par value of 472,855 shares of the McCrory Common Stock issued (3 for 4) in exchange therefor	—	2,915,895
Excess of par value ($100) of 57,968 shares of McCrory 5½% Cumulative Preference B Stock issued (18 for 100) in exchange for the remaining shares of National Common Stock over the par value ($1) thereof	(5,474,756)	—
	($ 8,684,745)	$11,721,891

(3) Acquisition of Oklahoma Tire and Supply Company:

McCrory acquired, effective October 1, 1960, the outstanding capital stock of Oklahoma Tire and Supply Company (Oklahoma); Oklahoma's income for the three months ended December 31, 1960 is included in the accompanying statement of consolidated net income. The total consideration of $5,350,000 in cash (including acquisition costs) plus $22,825,000 face amount of subordinated notes was $11,600,000 greater than the recorded book value of the underlying net assets, less related liabilities, of Oklahoma; this excess purchase cost, in the opinion of Company's management and independent advisors, represented debenture discount in the amount of $4,430,000 appraisal appreciation associated with other depreciable assets in the amount of $6,060,000 and goodwill of $1,110,000 (being

amortized over a 20-year period). With respect to the aforementioned $22,824,746 of 5.235% subordinated notes, $4,961,901 became due on February 1, 1961 and $17,862,845 is payable in ten equal annual installments commencing on February 15, 1962.

On December 30, 1960, Oklahoma was liquidated into McCrory and dissolved as of that date.

On January 31, 1961, McCrory entered into an agreement of sale of the time payment accounts receivable of the Oklahoma Tire and Supply Division. The initial proceeds from the sale of these receivables amounted to approximately $7,000,000.

(4) Merchandise inventories:

Merchandise inventories in the stores, exclusive of merchandise-in-transit priced at invoice cost, are priced at the lower of cost or market, based upon the retail method of inventory valuation. The remaining portion of merchandise inventories represents restaurant and warehouse inventories, priced at cost.

(5) Store properties of H. L. Green Canadian subsidiaries contracted on March 2, 1961 to be sold for cash:

Pursuant to an agreement dated March 2, 1961, all the store properties and related operating assets of the H. L. Green Canadian subsidiaries are to be sold for $14,500,000 in cash, subject to (a) approval by holders of 2/3rds of the Green common stock and (b) the purchaser's option to terminate the agreement if the transaction is not closed prior to May 31, 1961. The store properties and related operating assets (less liabilities to be assumed by purchaser) subject to the sale agreement are included in the accompanying financial statements as follows:

Current assets	$ 4,000,000
Current liabilities	(700,000)
Store properties (net)	8,700,000
	$12,000,000

The terms of this sale will result in a profit to the Canadian subsidiaries of approximately $2,500,000, after Canadian taxes. The aforementioned sale proceeds added to approximately $3,500,000 in funds to be retained by the H. L. Green Canadian subsidiaries will result in total cash funds of approximately $18,000,000 held by these Canadian companies. The accounts of H. L. Green which have been consolidated in the accompanying financial statements reflect no provision for United States or Canadian taxes which might be incurred, under the present tax laws, if the accumulated surplus of these Canadian subsidiaries were to be distributed to their parent. At the present time, any such distributions would, to the extent of accumulated earnings of approximately $13,300,000, be subject to the 15% Canadian withholding tax. The amount of any U. S. income tax which might become payable in the event of such distribution is not presently determinable. As an alternative to such distribution, the Green management is considering various plans for the possible investment of the assets retained by their Canadian subsidiaries.

On October 25, 1960, an explosion occurred in leased premises in Windsor, Ontario, Canada, in which an H. L. Green Canadian subsidiary operated a retail store. A number of claims have been received by that subsidiary as a result of property damage, loss of life and injuries to customers and employees. In the opinion of management and legal counsel, no liability is attached to the Canadian subsidiary as a result of the explosion. This contingent liability, if any, will not be assumed by the purchaser of the Canadian store properties.

(6) Working capital requirements:

The restrictive covenants of the Indenture dated as of September 29, 1960 covering the 5.235% subordinated notes provide, among other matters, that the Company maintain minimum consolidated working capital, exclusive of the notes, at least equal to the unpaid principal amount of the notes outstanding, $22,825,000. In addition, consolidated current assets are required to be at least 175% of consolidated current liabilities, exclusive of the notes and interest thereon. Under such provisions, at December 31, 1960, the Company was required to maintain consolidated current assets of not less than $70,200,000. The consolidated working capital (as defined) and consolidated current assets amounted to $68,300,000 and $108,700,000, respectively, at December 31, 1960.

(7) Preferred and Preference Stock:

The 3½% Series, Cumulative Convertible Preferred Stock is redeemable at the option of the Company, in whole or in part, at $104 per share, plus accrued dividends to date of redemption. There are 298,395 shares of Common Stock reserved for con-

version of this Preferred Stock at the rate of five shares of Common Stock for each share of Preferred. Pursuant to certain restrictions in connection with the authorization of Preferred Stock, Capital and Earned Surplus as at December 31, 1960 in the approximate amount of $29,800,000 (including $2,168,421 restricted as the result of purchases of treasury stock) are restricted as to future payments of dividends on the Common Stock or purchase or redemption of shares of its stock.

The $6 Cumulative Convertible Preference Stock is redeemable at the option of the Company, in whole or in part, at $115 per share, plus accrued dividends to date of redemption. There are 20,507 shares of Common Stock reserved for conversion of this Preference Stock at the rate of three shares of Common Stock for each fourteen shares of Preference Stock.

The 5½% Cumulative Preference B Stock is redeemable at the option of the Company, in whole or in part, at $100 per share, plus accrued dividends to date of redemption. At December 31, 1960, there were 386,454 shares of Common Stock reserved for conversion of this Preference Stock at the applicable 1961 rate of twenty shares of Common Stock for each three shares of Preference Stock.

(8) Minimum annual rentals:

At December 31, 1960, the minimum annual rentals upon property leased to the Company and its subsidiaries under leases expiring after December 31, 1963 amounted to approximately $13,800,000, plus, in certain instances, real estate taxes, insurance, etc.

(9) Stock Option and Employees' Stock Purchase Plans:

Restricted stock option plans adopted during the year permit the grant to key employees and officers of the Company of options to purchase 725,000 shares of common stock at 95% of the fair market value on the dates of grant.

Options granted are for a period of five years terminating on the thirtieth day after the fifth anniversary date of the grants. Options become exercisable to the extent of 20% each year on and after the anniversary dates of the grants. Options may not be sold, transferred, assigned, pledged or disposed of by the optionee except by will or laws of inheritance. In the event of termination of employment by resignation or death, all options will expire within varying periods up to six months from such termination. A summary of shares subject to option during the year 1960 is shown below:

Option Price Per Share	*Date Granted*	*Number of Shares*
$ 7.87⅔	1956	6,000
11.88	1960	50,000
11.91⅓	1960	153,000
12.12	1960	5,000
12.24	1960	30,000
12.35	1960	170,500
12.39	1960	40,500
13.19	1960	54,000
14.13⅓	1960	30,000
		539,000
Deduct options exercised during the year		3,000
Balance, December 31, 1960		536,000

At December 31, 1960, 192,000 shares remained available for future option grants under the Plans.

A Key Employees' Stock Purchase Plan and an Employees' Stock Purchase Plan adopted during 1960 permit the grant of rights to purchase a total of 115,000 shares of common stock at 85% of the fair market value thereof on the dates of grant. No options have been granted at December 31, 1960 under these Plans.

(10) February 11, 1960 sale of Butler Brothers assets:

On February 11, 1960, all of the assets of Butler Brothers were sold for the sum of $49,123,612 (as adjusted) and the assumption by the buyer (City Products Corporation) of all of the liabilities of Butler Brothers known or unknown. The Company remains contingently liable for the Butler Brothers liabilities assumed by City Products Corporation, including liability for rentals aggregating approximately $68,600,000 at December 31, 1959 under long-term leases expiring 1960-1996 transferred to the purchaser, but has received from the purchaser a valid and enforceable agreement of assumption of liabilities and indemnification in form satisfactory to counsel for the Company. Concurrent with the sale of its assets, Butler Brothers' name was changed to B.T.L. Corporation.

It is estimated that the maximum Federal and state income tax liability arising out of the sale will not exceed $4,000,000; however, it is the opinion of Hanigsberg & Delson, independent tax advisers for the Company, based on the fact that one of the assets sold was goodwill (the tax basis of which may be the value of such goodwill on March 1, 1913, under Section 1053 of the United States Internal Revenue Code of 1954) that a substantial part, or all, of the excess of the sale price over the aggregate of the net book value of the assets sold and direct expenses of sale will not constitute gain subject to income tax, and therefore no provision has been made in the accompanying statement of combined earned surplus for income tax on the sale.

(11) Sale of treasury stock:

During the year, 100,000 shares of treasury stock were sold in a private placement at the then market price ($1,170,000) resulting in a loss of $69,238, including transfer taxes. Installment notes maturing 1961-1965 with interest at 6% per annum were accepted in payment thereof.

(12) Proposed merger of H. L. Green Company, Inc. into McCrory Corporation:

The Board of Directors of H. L. Green Company, Inc. and of McCrory Corporation have approved, in principle, a merger of H. L. Green into McCrory Corporation. Upon completion of a merger agreement, special meetings of stockholders will be called for the purpose of considering and approving the proposed merger, concerning which full details will be furnished in a proxy statement relating to solicitation of proxies for such special meetings.

(13) Investment in Lerner Stores Corporation:

On March 7, 1961, the Company purchased 197,670 shares of the 1,242,300 outstanding shares of Common Stock of Lerner Stores Corporation, a women's and children's apparel chain. This acquisition includes 87,670 shares acquired in exchange for McCrory 5½% subordinated debentures and warrants. The debentures are to be payable within 15 years and are to be issued at the rate of $40 face amount for each share of Lerner Common Stock. This exchange also gave for each share of Lerner stock warrants to buy 1½ shares of McCrory at $20 per share during a period of 15 years.

The remaining 110,000 shares of Lerner Common Stock were acquired for cash at a price of approximately $33 per share.

Under the above purchase contracts, the Company agreed to offer to the other Lerner common shareholders as of March 7, 1961, the opportunity to tender their shares of Lerner Common Stock to McCrory Corporation either on the basis of $33 for each share of Lerner or in exchange for subordinated debentures and warrants, after proper registration.

RAPID-AMERICAN CORPORATION
1960